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**UNITED STATES BANKRUPTCY COURT
DISTRICT OF ARIZONA**

In re

THE BOND RANCH AT DEL RIO SPRINGS,
LLC

Debtors.

Case No. 10-10174-RTB

Chapter 11

**OMNIBUS STATEMENT OF FACTS IN
SUPPORT OF CHAPTER 11 PETITION
AND FIRST DAY MOTIONS**

Date of Hearing: tbd

Time of Hearing: tbd

THE BOND RANCH AT DEL RIO SPRINGS, LLC, debtor-in-possession in the above-captioned chapter 11 case (the “**Debtor**”), submits this Omnibus Statement of Facts in support of all first day motions and other specified pleadings filed in the above-captioned Chapter 11 reorganization case.

DESCRIPTION OF THE DEBTOR

Jurisdiction and Venue

1. On April 8, 2010 (the “**Petition Date**”), the Debtor filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101, *et seq.* (as amended, the “**Bankruptcy Code**”), which case is pending before the United States Bankruptcy Court for the District of Arizona (the “**Bankruptcy Court**”).

2. The Debtor is an Arizona limited liability company with its principal real estate assets located in Yavapai County, Arizona. Accordingly, venue of the Debtor's Chapter 11 case is proper in this District under 28 U.S.C. §§ 1408 and 1409.

Background Facts Concerning the Debtor and Del Rio Springs

3. The Debtor is the owner of approximately 3,000 acres (the "**Property**") of a planned area development ("**Del Rio Springs**") located in the Town of Chino Valley in Northern Arizona ("**Chino Valley**"). There is a development agreement in place with Chino Valley under which Del Rio Springs will be developed into a master planned community that will include up to 3,863 units of single-family detached homes, higher density attached housing, one to two 18-hole golf courses, 395 acres of supporting commercial and attached housing uses, miles of pedestrian and equestrian trails, and 419 acres of dedicated open space.

4. Del Rio Springs and the surrounding area have attributes that add to the desirability of the master-planned community and future homebuyers. At approximately a mile high in elevation, temperatures rarely exceed 90 degrees. The area offers a variety of amenities including golfing, restaurants, fishing, and hiking. Neighboring towns include Prescott Valley, and Dewey Humboldt, and Flagstaff is approximately 90 minutes from Del Rio Springs.

5. With the Prescott region's popularity as a retirement area, the primary target market for Del Rio Springs is the retirement and second-home market. The secondary target market comprises the local Prescott home-buying market.

6. The Debtor is not a homebuilder and does not intend to build homes for Del Rio Springs. The Debtor instead obtains land entitlements and facilitates the development of Del Rio Springs for the sale to developers, builders, and investors looking to hold land for current or future development. In this regard, Del Rio Springs is already far along in the development

process. Over the last several years, the Property has secured water rights from Chino Valley. As of the Petition Date, the Debtor was in the process of negotiating a water agreement to obtain a certificate of convenience and necessity for the water company at Del Rio Springs. In addition to securing water rights, Del Rio Springs has a completed wastewater treatment facility to service all of Del Rio Springs, including the Property, and Chino Valley has provided preliminary approval of a sewer agreement for Del Rio Springs.

7. As of the Petition Date, the Debtor was in the process of performing entitlement work and finalizing the first preliminary plat of 795 single-family residential homes on the east side of the Property. Accordingly, the Debtor and a number of professionals working at Del Rio Springs have invested a substantial amount of time and resources developing the Property. The Debtor has expended a total of approximately \$20.5 million in development and entitlement costs, and that amount does not include the purchase price for the Property.

8. As of March 2008, the Property owned by the Debtor had an as-is, third-party appraisal value of approximately \$90 million. Given the significant level of development over the last several years and the recent entitlement work the Debtor has performed with respect to the Property, the Debtor estimates that, despite current real estate market conditions, the Property's value today is in excess of \$50 million.

Ownership and Management of the Debtor

9. The Debtor is owned by over 100 members, and is managed by a board of managers comprising Duncan Wallace, Jerry Nelson, Sam Gambacorta, Ken Macik, Stanley Carey, and Base Capital, LLC ("**Base Capital**"). A list of the members and their percentage membership interest is attached to this Omnibus Statement of Facts as Exhibit "A." Under the Debtor's operating agreement, Base Capital also serves as the board of managers' designee to

manage the Debtor's day-to-day operations and affairs. Base Capital is a private real estate development and investment firm headquartered in Bellevue, Washington, which over the past 12 years has developed or has under development over 1,000 single-family lots, 1,500 multifamily units, and 200,000 square feet of commercial space.

CAPITAL STRUCTURE

The Secured Debt Against the Property

10. In July 2004, the Debtor obtained a \$16,000,000 loan (the “**Senior Secured Loan**”) from Citicorp USA, Inc. (“**Citicorp**”), which, in April 2007, was subsequently increased to \$18,000,000 under that certain Amended and Restated Term Note (the “**Note**”). The Note is secured by a senior deed of trust on the Property.

11. In accordance with certain guaranties executed in favor of Citicorp by James Brown, Robert O’Rear, and Joseph Galando -- each of whom are equity holders of the Debtor -- Brown, O’Rear, and Galando jointly and severally guaranteed the Debtor’s obligations under the Senior Secured Loan (collectively, the “**Guaranty Agreements**”).

12. Under that certain Inter-Guarantor Agreement and First Amendment To Inter-Guarantor Agreement (collectively, the “**Inter-Guarantor Agreement**”), the Debtor executed with Debtor and Brown, O’Rear, and Galando, the Debtor agreed to pay such parties certain fees in consideration for their execution of the Guaranty Agreements. Brown, O’Rear, and Galando also agreed what each guarantor’s exposure and contribution rights under the Guaranty Agreements would be vis-à-vis each other. Duncan Wallace (who is an equity holder of the Debtor) was also a party to the Inter-Guarantor Agreement and agreed to contribute towards the other individual guarantors’ obligations, however, he was never a guarantor of the Senior Secured Loan.

13. Citicorp is no longer a creditor of the Debtor. When the Senior Secured Loan matured on December 30, 2008, Brown and O’Rear, through their company Del Rio Springs Loan Partners, LLC (“**Del Rio Partners**”), paid off Citicorp and stepped into Citicorp’s position under the Senior Secured Loan. Brown and O’Rear eventually sued Mr. Galando under the Inter-Guarantor Agreement alleging they paid Mr. Galando’s guarantor contribution.¹ As such, Brown and O’Rear -- insider equity holders of the Debtor -- now hold the senior lien against the Property through Del Rio Partners. The estimated amount outstanding under the Senior Secured Loan is approximately \$13,585,767 plus accrued interest and fees.

14. On information and belief, in accordance with the Inter-Guarantor Agreement, Brown, O’Rear, and Galando also hold a second-position lien and security interest against the Property on account of their guaranty exposure under their respective Guaranty Agreements. However, when Brown and O’Rear paid off Citicorp in accordance with their Guaranty Agreements (through Del Rio Partners), this portion of the second-position debt stepped into the Citicorp’s Senior Secured Loan.

15. By virtue of certain payments to Citicorp made before Brown and O’Rear took out Citicorp in full, Brown, O’Rear, and Galando are owed approximately \$2,599,000 plus accrued interest and fees, which the Debtor believes is secured in some varying amount by the second-position and/or the fourth-position secured debt against the Property.

16. On information and belief, Base Capital holds a third-position deed of trust against the Property on account of certain payments made to Citicorp under the Senior Secured Loan. The outstanding amount of the third-position debt is approximately \$2,000,000 plus accrued interest and fees.

¹ On information and belief, Brown and O’Rear have not sued Wallace under the Inter-Guarantor Agreement.

Outstanding Taxes

17. The Debtor owes approximately \$140,000 on account of outstanding real estate taxes for 2008 and 2009.

Unsecured Creditors

18. The Debtor has approximately \$550,000 in general unsecured claims comprising approximately 17 professionals and other parties contracted to develop Del Rio Springs.

EVENTS PRECIPITATING CHAPTER 11 FILING

19. Several factors have led to the filing of this Chapter 11 case. Beginning in 2006 and continuing through 2007, 2008, and 2009 the homebuilding and real estate development industry throughout the United States experienced a significant and sustained decline. The negative impact of this real estate downturn was further exacerbated and accelerated as a result of difficulties in the mortgage and credit markets. The Debtor believes the stagnant market has stabilized and has begun to shown signs of a turnaround, which will allow the Debtor to obtain additional capital and/or refinance its secured indebtedness.

20. In this regard, the Debtor has been negotiating a forbearance of the Senior Secured Loan with Brown and O'Rear, and had contemplated an agreement that involved, among other things, a \$4,000,000 payment to Brown and O'Rear in exchange for a 2-year forbearance on the Senior Secured Loan. Under the contemplated agreement, if the Debtor could not provide a \$1,000,000 up-front payment to Brown and O'Rear on or before April 9, 2010, then the property would be foreclosed on that same day.

21. In mid-February 2010, the Debtor received a \$500,000 cash offer from one of its members to purchase approximately 23 acres of the Property, which offer also included an additional payment of \$500,000 towards the \$1,000,000 up-front payment to prevent foreclosure.

Other members also agreed to contribute another \$300,000 towards the up-front payment, meaning the Debtor had \$1.3 million committed to pay Brown and O'Rear before April 9, 2010.

22. As a result of the parties inability to reach an agreement, Brown and O'Rear have continued to prosecute the foreclosure. Without a forbearance agreement in place, the Debtor was forced to commence this chapter 11 case to salvage approximately \$30 million of equity in the Property for the benefit of all of the Debtor's creditors and equity holders. Indeed, the estimated total liabilities of the Debtor is approximately \$20 million, and the Property is believed to be worth approximately \$50 million.

23. The Debtor intends to proceed, in a transparent manner, to formulate a viable plan of reorganization that restructures its secured debt to allow a sale of all or portions of the Property in a more stabilized climate to pay off its creditors and provide a distribution to its equity holders. The Debtor may alternatively obtain capital and/or refinancing to emerge from this chapter 11 case as quickly as possible and with a financial structure that enables the Debtor to help develop and market the Property.

Dated this 8th day of April, 2010.

SQUIRE, SANDERS & DEMPSEY L.L.P.

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EXHIBIT A

List of Debtor's Members

Name	Percentage Interest
Base Capital, LLC	17.33%
Jerry Nelson	11.45%
Joseph A. Galando and Barbara J. Galando	8.42%
Gambacorta Family Limited Partnership	7.47%
Duncan A. Wallace	7.02%
Carey-on Limited Partnership	3.74%
El Dorado Springs, LLC	2.92%
Thomas J. Byrne	2.52%
James F. Brown and Mary M. Ingraham	2.20%
Deno Melchiorre Declaration of Trust U/A/D 12-20-1989	2.15%
Kenneth Macik and Carol A. Alcala	1.95%
1999 Inv Trust of the David J. Galando Trusts	1.37%
Alton O. Willoughby Jr.	1.29%
Diedra Willoughby	1.29%
Kimberly D. Cook	1.28%
Robert O'Rear	1.14%
Rudeen Arizona Holdings, LLC	1.14%
Source Capital Group Cust. FBO Barry Fuller	1.00%
Equity Trust Company Cust. FBO Robert J. Nabasny IRA	0.89%
Stephen G. Godwin	0.89%
Stanley J. Carey	0.76%
Lawrence Repsher, MD Profit Sharing Trust	0.74%
H. Thomas Wick	0.72%
Equity Trust Company Cust. FBO An D. Tran IRA	0.64%
Barry G. Branyan and Patricia A. Branyan	0.63%
Equity Trust Company Cust. FBO Barry G. Branyan IRA	0.62%
Paul Carey	0.57%
Galando Investments Limited Partnership	0.57%
Wick Family Limited Partnership	0.57%
West Coast Management & Production Capital, L.L.C.	0.56%
The Kleinau Trust dated March 2, 1993	0.56%
Equity Trust Company Cust, FBO Duncan Wallace IRA	0.54%
Ross Candoo	0.54%
Kenneth Wakazuru	0.52%
Entrust Arizona, LLC, Cust FBO Dorothy A. Wittrig IRA	0.52%
Ron and Margaret K. McMillan	0.52%
Win Van Pelt and Terry Van Pelt	0.48%
Nathanial Nelson Trust	0.47%
John J. Siegharter	0.44%
Equity Trust Company Cust. FBO Alan D. Miller IRA	0.44%
Equity Trust Company Cust. FBO Shawn Sorenson SEP IRA	0.39%
William B. Romanick and Nancy L. Romanick	0.39%
Robert J. Nabasny	0.37%

Scott Hughes and Bonnie E. Tadej	0.37%
Robert W. Munn and Sally A. Munn	0.33%
David Armando Nelson Trust	0.31%
Sandra Jensen Survivors Trust dated March 9, 2005	0.31%
Dain Rauscher Inc. Cust. FBO Randy Springborn (IRA)	0.29%
Mary S. Brand	0.28%
Murrel J. Brand - Decedent's Trust	0.28%
Murrel J. Brand - Qualified Election Trust	0.28%
Shawn Sorenson and Lori Sorenson	0.28%
Douglas Mathews	0.28%
Laurence R. Nicholson	0.28%
Equity Trust Company Cust. FBO Nancy L. Romanick IRA	0.27%
James E. Minifie	0.26%
Jim and Robyn Elliott, JTWROS	0.26%
John and Leslie Mast	0.26%
The Manuel A. Mello, Jr. and Teresa G. Mello Living Trust	0.26%
Equity Trust Company Cust. FBO Nancy Joy Kleinau IRA	0.26%
David and Molly Brodie	0.26%
Equity Trust Company Cust. FBO Sam A. Gambacorta	0.23%
Equity Trust Company Cust. FBO Mary J. Gambacorta	0.23%
Thomas H. Minifie and Gina L. Minifie	0.22%
Equity Trust Company Cust. FBO Joy L. Kleinau IRA	0.21%
Equity Trust Company Cust. FBO Rollo W. Van Pelt SEP IRA	0.21%
Steven L. Padgett	0.19%
Equity Trust Company Cust. FBO Patti J. Baker IRA	0.18%
Joseph P. and Ada I. Siegharter	0.18%
Thomas H. Cooke	0.18%
Frederick J. Gosielewski and Arlene A. Gosielewski	0.17%
Roger T. Tanabe and Marites G. Sianquita	0.17%
James G. Morford, Jr. Pers Rep for Morford Estate	0.16%
Kevin E.H. Nagai	0.16%
Kevin Rudeen	0.14%
James T. Sorenson	0.14%
Kim S. Faust	0.14%
James P. and James Ryan Haggerty	0.13%
Eric and Denise Campbell	0.13%
Equity Trust Company Cust. FBO Janis Wallace IRA	0.13%
Scott W. Settle Family Trust dated 9/2/03	0.11%
Anesia St. Clair	0.10%
SAMKYL LLC	0.09%
Louis M. Melchiorre Revocable Living Trust date August 2, 1993	0.09%
Equity Trust Company Cust. FBO Patricia A. Branyan IRA	0.09%
Randy Springborn	0.09%
Ida Heroux Revocable Living Trust dated March 18, 1993	0.09%
Equity Trust Company Cust. FBO Robert M. Bayne IRA	0.09%
Pati J. Baker	0.08%
Entrust Northwest, LLC FBO Rollo W. Van Pelt IRA #20079-334	0.08%

Lincoln Trust Company Cust. FBO Laurence R. Nicholson IRA	0.07%
Equity Trust Company Cust. FBO John J. Siegharter IRA	0.07%
Barry Fuller	0.07%
Equity Trust Company Cust. FBO Steven Padgett Roth IRA	0.07%
Equity Trust Company Cust. FBO Lori Sorenson IRA	0.06%
Matthew Sorenson	0.06%
Vatea Capital, Inc.	0.06%
Equity Trust Company Cust. FBO Mary Gene Salvesen IRA	0.06%
Dain Rauscher Inc. Cust. FBO Randy Springborn (Roth/IRA)	0.05%
Dain Rauscher Inc. Cust. FBO Anesia St. Clair (Roth/IRA)	0.04%
Equity Trust Company Cust. FBO Jonathan Wallace	0.02%
Joy L. Kleinau	0.01%
Total	100.00%